

Message Text

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ORIGIN EB-07

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DOT-00 INR-07 NSAE-00 FAA-00 SSO-00 NSCE-00 SS-15

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TO AMEMBASSY LONDON IMMEDIATE

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E.O11652, N/A

TAGS: EAIR, UK

SUBJECT: U.S.-U.K. AIRLINE CAPACITY DISPUTE

1. GEORGE ROGERS OF DOT (ACCOMPANIED BY IAN BROWN) MET WITH U.S. TEAM HEADED BY JOEL BILLER (EB/TT) APRIL 6-8 TO DISCUSS SITUATION CREATED BY FAILURE PAN AM, TWA AND BRITISH AIRWAYS AGREE ON U.S.-U.K. CAPACITY THIS SUMMER.

ROGERS SAID SITUATION REQUIRED GOVERNMENTS TO REACH AGREEMENT TO REDUCE CAPACITY BECAUSE THERE WOULD OTHERWISE BE EXCESS CAPACITY DAMAGING TO AIRLINES. HE CLAIMED THAT PARAGRAPH IN AUGUST 1975 JOINT RECORD OF INFORMAL U.S.-U.K. AVIATION CONSULTATIONS OBLIGED BOTH GOVERNMENTS TO DECIDE ON ACTION TO BE TAKEN "IF AIRLINES COULD NOT AGREE.

2. WE RESPONDED THAT OUR ASSESSMENT WAS THAT SITUATION DID NOT WARRANT GOVERNMENTAL INTERVENTION. IN ALL MARKETS, CAPACITY INCREASES OVER LAST SUMMER WERE LESS
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THAN ANTICIPATED GROWTH IN TRAFFIC AND THEREFORE LOAD

FACTORS WOULD IMPROVE OVER LAST SUMMER. WE ALSO NOTED THAT CAPACITY INCREASE IN NEW YORK WAS SLIGHT, THAT THERE WOULD BE LARGE DECREASE AT BOSTON, AND WASHINGTON AND CHICAGO WERE UNCHANGED FROM LAST SUMMER. RE U.K. ARGUMENT THAT GOVERNMENTS WERE COMMITTED TO TAKE ACTION, WE REPLIED THAT THIS APPLIED ONLY IF GOVERNMENTS AGREED ACTION WAS NECESSARY, AND USG DID NOT SO AGREE. WE OFFERED MONITOR SITUATION CLOSELY, EXCHANGE DATA, AND MEET PROMPTLY SHOULD A DAMAGING SITUATION OCCUR DURING COURSE OF SUMMER.

3. ROGERS REJECTED U.S. PROPOSAL AND SAID THAT, IF USG UNWILLING REACH AGREEMENT, U.K. WOULD HAVE TO IMPOSE LIMITATIONS UNILATERALLY. HE ALSO SAID THAT LOGIC OF U.S. POSITION (UNFETTERED CAPACITY INCREASES) COULD LEAD U.K. TO DECIDE TO UNLEASH BRITISH AIRWAYS AND TO AUTHORIZE LAKER OPERATE ITS SKYTRAIN SERVICE. WE FELT LATTER "THREAT" WAS A BLUFF, AT LEAST IN SHORT TERM, AND DISREGARDED IT. RE UNILATERAL ACTION, WE DREW ATTENTION TO NOTE DELIVERED BY EMBASSY ON APRIL 5 AND REPEATED THAT U.S. WOULD REGARD UNILATERAL ACTION AS BREACH BERMUDA AGREEMENT, REQUIRING U.S. TO RETALIATE AGAINST BRITISH AIRWAYS. ROGERS SAID HE WOULD WELCOME U.S. ACTION TO REDUCE CAPACITY BUT, OF COURSE, HE WOULD HAVE TO COUNTER AGAINST U.S. AIRLINES. WE REJOINED THAT SUCH COUNTER ACTION WOULD LEAD TO ADDITIONAL U.S. LIMITATIONS AND, IN END, CAPACITY WOULD BE WELL BELOW TRAFFIC DEMANDS.

4. ON APRIL 7, PAN AM MADE NEW OFFER TO TWA AND BRITISH AIRWAYS AIMED AT REDUCTIONS DURING WINTER (BUT NOT SUMMER). TWA REJECTED PROPOSAL AND, ALTHOUGH BRITISH AIRWAYS DEFERRED RESPONSE, IT IS CLEAR IT WOULD HAVE ALSO REJECTED PROPOSAL.

5. LAST MEETING WAS THEN HELD IN WHICH ROGERS SAID HE WOULD DELIVER LATER IN DAY LETTER IMPOSING UNILATERAL CAPACITY LIMITATIONS. (AMBASSADOR RAMSBOTHAM CONFIRMED TO ASST. SECRETARY GREENWALD THIS WOULD HAPPEN.) ROGERS WAS PERSUADED, HOWEVER, TO DEFER LETTER UNTIL TUESDAY, APRIL 13, ON GROUNDS RECEIPT OF LETTER WOULD PERMANENTLY LIMITED OFFICIAL USE

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CLOSE DOOR TO ANY OTHER OPTIONS.

6. THROUGHOUT COURSE WEEK, U.K. PRESSED STRONGLY FOR U.S. ACTION. LORD BOYD CARPENTER PRESSED MATTER WITH VARIOUS U.S. OFFICIALS AND AMBASSADOR RAMSBOTHAM CALLED ASST. SECRETARY GREENWALD TO IMPRESS ON HIM SERIOUSNESS OF MATTER AND U.K. DETERMINATION ACT UNILATERALLY IF NECESSARY. IN THESE DISCUSSIONS, IT BECAME CLEAR BRITISH

WERE NOT SO MUCH CONCERNED WITH OVERALL CAPACITY/DEMAND
RELATIONSHIP THIS SUMMER, AS WITH PAN AM'S ATTEMPT
INCREASE ITS MARKET SHARE AT NEW YORK AND WITH U.K.
OBJECTIVE OF ATTAINING 50 PERCENT OF EACH MARKET FOR
BRITISH AIRWAYS OVER PERIOD OF TIME. BRITISH MENTIONED

DESIRE RENEGOTIATE BERMUDA AGREEMENT TO ACHIEVE THESE
OBJECTIVES AND SAID THEY WOULD BE ASKING FOR CONSULTATIONS
SOON TO DISCUSS BASIC PRINCIPLES, FOLLOWING WHICH NEGOTIATIONS
ON ROUTES, CAPACITY DETAILS, ETC. WOULD TAKE PLACE. U.S. OFFICIALS
RESPONDED THAT NEED ADDRESS THESE LONG TERM QUESTIONS WAS
RECOGNIZED, BUT IT WOULD BE MISTAKE ATTEMPT DEAL WITH THEM IN
CRISIS SITUATION CREATED BY RETALIATION AND COUNTER-RETALIATION.

7. FYI: CAB HAS PREPARED ORDER REQUIRING BRITISH AIRWAYS
FILE ITS SCHEDULES FOR APPROVAL OR DISAPPROVAL AND ASKING
IT SHOW CAUSE WHY CERTAIN FLIGHTS (SO FAR UNDETERMINED)
SHOULD NOT BE DISAPPROVED. SUCH ORDER WILL PRESUMABLY
BE ISSUED PROMPTLY IF U.K. ACTS UNILATERALLY. END FYI.
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